

Court Services and Offender Supervision Agency
Consolidated Balance Sheets
As of September 30, 2006 and 2005
(in dollars)

	2006	2005
Assets		
Intragovernmental Assets:		
Fund Balance with Treasury - Note 2	\$ 61,080,860	\$ 58,200,356
Accounts Receivable - Federal - Note 3	-	39,004
Other Assets:		
Accounts Receivable - Note 3	1,706,889	900,272
Property, Plant and Equipment - Note 4	12,980,686	19,694,135
Total Assets	\$ 75,768,435	\$ 78,833,767
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	\$ 302,060	\$ 1,760,203
Advances from Other Federal Agencies	823,266	632,564
Total Intragovernmental Liabilities	1,125,326	2,392,767
Accounts Payable	7,416,317	10,870,913
Actuarial FECA Liability	397,818	467,092
Accrued Payroll and Benefits	3,830,930	3,580,173
Accrued Unfunded Annual Leave	5,147,367	4,881,061
Total Liabilities - Note 5	\$ 17,917,758	\$ 22,192,006
Net Position		
Unexpended Appropriation	51,018,212	42,142,490
Cumulative Results of Operations	6,832,465	14,499,271
Total Net Position	\$ 57,850,677	\$ 56,641,761
Total Liabilities and Net Position	\$ 75,768,435	\$ 78,833,767

The accompanying notes are an integral part of these consolidated statements

Court Services and Offender Supervision Agency
Consolidated Statement of Net Cost
For the Years Ended September 30, 2006 and 2005
(in dollars)

	2006	2005
Program Costs		
Critical Success Factor 1 - Risk and Needs Assessment		
Intragovernmental Gross Costs	\$ 2,394,550	\$ 5,899,480
Intragovernmental Earned Revenue - Note 6	(9,100)	(6,855)
Intragovernmental Net Costs	<u>2,385,450</u>	<u>5,892,625</u>
Gross Cost with the Public	32,233,132	24,135,033
Earned Revenues from the Public - Note 6	(417,828)	(265,070)
Net Cost with the Public	<u>31,815,304</u>	<u>23,869,963</u>
Total Critical Success Factor 1 - Risk and Needs Assessment	\$ 34,200,754	\$ 29,762,588
Program Costs		
Critical Success Factor 2 - Close Supervision		
Intragovernmental Gross Costs	\$ 6,532,018	\$ 15,846,121
Intragovernmental Earned Revenue - Note 6	(25,211)	(22,939)
Intragovernmental Net Costs	<u>6,506,807</u>	<u>15,823,182</u>
Gross Cost with the Public	88,139,322	63,128,097
Earned Revenues from the Public - Note 6	(1,156,782)	(637,621)
Net Cost with the Public	<u>86,982,540</u>	<u>62,490,476</u>
Total Critical Success Factor 2 - Close Supervision	\$ 93,489,347	\$ 78,313,658
Program Costs		
Critical Success Factor 3 - Treatment and Support Services		
Intragovernmental Gross Costs	\$ 2,086,868	\$ 5,694,347
Intragovernmental Earned Revenue - Note 6	(6,440)	(9,966)
Intragovernmental Net Costs	<u>2,080,428</u>	<u>5,684,381</u>
Gross Cost with the Public	27,274,528	22,038,405
Earned Revenues from the Public - Note 6	(298,495)	(200,820)
Net Cost with the Public	<u>26,976,033</u>	<u>21,837,585</u>
Total Critical Success Factor 3 - Treatment and Support Services	\$ 29,056,461	\$ 27,521,966
Program Costs		
Critical Success Factor 4 - Partnership		
Intragovernmental Gross Costs	1,007,188	2,603,057
Intragovernmental Earned Revenue - Note 6	(5,531)	(329)
Intragovernmental Net Costs	<u>1,001,657</u>	<u>2,602,728</u>
Gross Cost with the Public	14,491,210	11,661,397
Earned Revenues from the Public - Note 6	(250,753)	(161,258)
Net Cost with the Public	<u>14,240,457</u>	<u>11,500,139</u>
Total Critical Success Factor 4 - Partnership	\$ 15,242,114	\$ 14,102,867
Total Net Cost of Operations	\$ 171,988,676	\$ 149,701,079

The accompanying notes are an integral part of these statements

**Court Services and Offender Supervision Agency
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2006 and 2005
(in dollars)**

	2006	2005
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance, as previously reported	\$ 14,499,271	\$ (131,192)
Correction of Errors - Note 13	-	2,752,549
Beginning Balance, as restated	\$ 14,499,271	\$ 2,621,357
Budgetary Financing Sources:		
Appropriations Used	156,370,285	154,094,921
Other Financing Sources:		
Imputed Financing - Note 9	7,951,585	7,484,072
Total Financing Sources	\$ 164,321,870	\$ 161,578,993
Net Cost of Operations	171,988,676	149,701,079
Net Change	(7,666,806)	11,877,914
Cumulative Results of Operations	\$ 6,832,465	\$ 14,499,271
UNEXPENDED APPROPRIATIONS		
Beginning Balance, as previously reported	\$ 42,142,490	\$ 49,844,479
Correction of Errors - Note 13	-	(2,572,732)
Beginning Balance, as restated	\$ 42,142,490	\$ 47,271,747
Budgetary Financing Sources:		
Appropriations Received	201,388,000	180,000,000
Appropriations Transferred in/out	(29,833,000)	(29,594,336)
Other Adjustments	(6,308,993)	(1,440,000)
Appropriations Used	(156,370,285)	(154,094,921)
Total Financing Sources	\$ 8,875,722	\$ (5,129,257)
Unexpended Appropriations	\$ 51,018,212	\$ 42,142,490
Total Net Position	\$ 57,850,677	\$ 56,641,761

The accompanying notes are an integral part of these statements

Court Services and Offender Supervision Agency
Consolidated Statement of Budgetary Resources
As of September 30, 2006 and 2005
(in dollars)

	2006	2005
Budgetary Resources		
Unobligated Balance:		
Brought forward, October 1	\$ 11,027,789	\$ 21,547,930
Recoveries of Prior Year Obligations		
Actual	3,953,241	3,744,218
Budget Authority:		
Appropriation	201,388,000	180,000,000
Spending Authority from Offsetting Collections:		
Earned		
Collected	1,368,148	1,345,984
Receivables	767,612	690,089
Change in Unfilled Customer Orders		
With Advance from Federal Sources	190,702	244,722
Without Advance from Federal Sources	1,483,158	(77,842)
Nonexpenditure transfers, net:		
Actual	(29,833,000)	(29,594,336)
Permanently not available	(571,361)	-
Enacted reductions	(1,715,550)	(5,983,997)
Total Budgetary Resources	<u>\$ 188,058,739</u>	<u>\$ 171,916,768</u>
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$ 170,427,170	\$ 159,038,692
Reimbursable	1,533,707	1,850,286
Total Obligations Incurred - Note 11	<u>171,960,877</u>	<u>160,888,978</u>
Unobligated Balance:		
Apportioned Balance Available	6,149,129	4,570,407
Unobligated Balances Not Available	9,948,733	6,457,383
Total Status of Budgetary Resources	<u>\$ 188,058,739</u>	<u>\$ 171,916,768</u>
Change in Obligated Balances		
Obligated Balance, Net:		
Unpaid obligations, brought forward October 1	\$ 38,960,037	\$ 32,132,261
Less: Uncollected customer payments from Federal Sources	1,309,593	697,345
Obligations incurred	171,960,877	160,888,979
Less: Gross outlays	164,015,187	150,316,676
Less: Recoveries of prior year unpaid obligations	3,953,241	3,744,218
Change in uncollected customer payments	2,250,770	612,557
Total Obligated Balance	<u>\$ 39,392,123</u>	<u>\$ 37,650,444</u>
Obligated balance, net, end of period		
Unpaid obligations	\$ 42,952,486	\$ 38,960,037
Less: Uncollected customer payments from Federal Sources	3,560,363	1,309,593
Total Obligated Balance, end of period	<u>\$ 39,392,123</u>	<u>\$ 37,650,444</u>
Net Outlays		
Gross outlays	\$ 164,015,187	\$ 150,316,676
Less: Offsetting collections	1,558,850	1,590,706
Total Net Outlays	<u>\$ 162,456,337</u>	<u>\$ 148,725,970</u>

The accompanying notes are an integral part of these statements

Court Services and Offender Supervision Agency
Consolidated Statement of Financing
As of September 30, 2006 and 2005
(in dollars)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES:		
BUDGETARY RESOURCES OBLIGATED		
Obligations Incurred - Direct	\$ 170,427,170	\$ 159,038,692
Obligations Incurred - Reimbursable	1,533,707	1,850,286
Total Obligations Incurred	\$ 171,960,877	\$ 160,888,978
Less: Spending Authority from Off-setting Collections & Recoveries		
Earned Reimbursements		
Collected	\$ 1,368,148	\$ 1,345,984
Receivable from Federal Sources	767,612	690,089
Change in Unfilled Customers Orders w/Advance	190,702	244,722
Change in Unfilled Customers Orders without Advance	1,483,158	(77,842)
Recoveries of Prior Year Obligations	3,953,241	3,744,218
Total Spending Authority from Off-setting Collections & Recoveries	\$ 7,762,861	\$ 5,947,171
Obligations Net of Offsetting Collections and Recoveries	164,198,016	154,941,807
Less: Off-setting receipts	-	-
Net Obligations	\$ 164,198,016	\$ 154,941,807
Other Resources		
Imputed Financing from Costs Absorbed by Others - Note 9	7,951,585	7,484,072
Net Other Resources Used to Finance Activities	7,951,585	7,484,072
Total Resources Used to Finance Activities	\$ 172,149,601	\$ 162,425,879
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	\$ (7,204,694)	\$ (1,628,252)
Resources That Fund expenses recognized in Prior Periods	-	169,604
Resources That Finance the Acquisition Assets	(3,986,207)	(15,380,149)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (11,190,901)	\$ (16,838,797)
Total Resources Used to Finance the Net Cost of Operations	\$ 160,958,700	\$ 145,587,082
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Increase/Decrease in Annual Leave Liability	\$ 266,306	\$ 696,138
Increase/Decrease in Exchange Revenue Receivable	806,616	651,085
Other	(69,274)	169,604
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	\$ 1,003,648	\$ 1,516,827
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 10,699,655	\$ 2,479,487
Other	(673,327)	117,683
Total Components of Net Cost of Operations that will not Require or Generate Resources	\$ 10,026,328	\$ 2,597,170
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	\$ 11,029,976	\$ 4,113,997
Net Cost of Operations	\$ 171,988,676	\$ 149,701,079

The accompanying notes are an integral part of these statements

Note 1: Summary of Significant Accounting Policies:

A. Description of Entity

The Court Services and Offender Supervision Agency (the Agency) for the District of Columbia is an independent agency created by the National Capital Revitalization and Self-Government Improvement Act of 1997 (the Act). During August 2000, the Agency was certified as an independent agency within the Executive Branch of the federal government. Prior to that time the Agency was under the control of a Trustee, appointed by the Attorney General. The Agency is responsible for the functions of: 1) the former District of Columbia (D.C.) Board of Parole, 2) the D.C. Probation function, formerly a part of the District of Columbia Courts, and 3) the D.C. Pretrial Services Agency (the Pretrial Services Agency has authority to function as an independent entity of the Agency.) The Parole and Adult Probation functions are now known as the Community Supervision Program of the Agency.

The mission of the Agency is to increase public safety, prevent crime, reduce recidivism, and support the fair administration of justice in close collaboration with the community. The Agency will enhance decision-making and provide effective community supervision, thereby ensuring public confidence in the criminal justice system.

The majority of the Agency's funding comes from standard appropriations made by Congress. Additional funding is provided through grants from the Department of Justice and the State of Maryland. This additional funding consists of reimbursement work performed by CSOSA on behalf of the requesting entity. CSOSA does not have Earmarked funds.

For the purpose of this financial statement package, the Agency's reporting entity is comprised of two components: (1) the Community Supervision Program (CSP) and, (2) the Pretrial Services Agency (PSA). In FY 2006, the Agency was appropriated \$201,388,000 from Congress, of which the following allocation was made:

	CSP	PSA	PDS	TOTAL FY 2006	TOTAL FY 2005
Appropriation	\$129,360,000	\$42,195,000	\$29,833,000	\$201,388,000	\$180,000,000
Rescission	1,293,600	421,950	298,330	2,013,880	1,440,000
Net Appropriation	\$128,066,400	\$41,773,050	\$29,534,670	\$199,374,120	\$178,560,000

The accompanying financial statements reflect the portion of the appropriated amount that was transferred to the Public Defenders Service (PDS). Although PDS is included with CSOSA's appropriation language, they are an independent agency and have no relationship to CSOSA. Therefore, these funds are being reflected as transferred to PDS and are not considered part of CSOSA's net budgetary resources, assets, liabilities or net cost of operations.

B. Basis of Presentation

These financial statements have been prepared from the books and records of CSOSA in accordance with generally accepted accounting principles as established by the Federal Accounting Standards Advisory Board (FASAB) and supplemented by the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Note 1: Summary of Significant Accounting Policies (con't):**C. Basis of Accounting**

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the federal budgetary basis of accounting, funds availability is recorded based upon legal considerations and constraints. Budget authority is the authority provided by federal law to incur financial obligations that will result in outlays or expenditures.

D. Revenues and Other Financing Sources

The Agency receives the majority of funding needed to support its programs through Congressional appropriations. CSOSA receives an annual appropriation that may be used, within statutory limits, for operating and capital expenditures. CSOSA also has a No-Year appropriation. This No-Year appropriation has been designated as: "available until expended for construction expenses at new or existing facilities", see Public Law 107-96. Additional funding is provided through grants from the Department of Justice and the State of Maryland. CSOSA earns exchange revenue through inter-agency agreements with other Federal entities for which CSOSA provides grant administration services. Revenues are recognized at the time related program or administrative expenses are incurred. CSOSA reviews and classifies their inter-agency agreements as either exchange or transfers in.

E. Fund Balance with Treasury

Funds with the Treasury represent primarily appropriated funds available to pay current liabilities and finance future authorized purchases. Treasury, as directed by authorized certifying officers, processes receipts and disbursements on behalf of CSOSA. CSOSA does not maintain cash in commercial bank accounts nor does CSOSA maintain an imprest fund.

F. Accounts Receivable

Accounts receivable consists of receivables and reimbursements due from Federal agencies and others. Generally, intragovernmental accounts receivable are considered fully collectible.

G. Property, Plant and Equipment

Property and equipment is recorded at cost and is depreciated using the straight-line method over the useful life of the asset, when the estimated useful life of an asset is two or more years. Leasehold improvements are capitalized when the improvements are made and amortized over the remaining term of the lease agreement. CSOSA has established capitalization thresholds, \$100,000 for leasehold improvements and \$25,000 for equipment. Other property items, normal repairs, and maintenance are charged to expense as incurred.

Internal use software is capitalized when developmental phase costs or enhancement costs are \$500,000 or more and the asset has an estimated useful life of two or more years.

Note 1: Summary of Significant Accounting Policies (con't):

H. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.

I. Liabilities

Liabilities represent the monies or other resources that are likely to be paid by CSOSA as the result of a transaction or event that has already occurred. However, no liability can be paid absent the proper budget authority. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources.

J. Contingencies and Commitments

CSOSA is a party to various administrative proceedings, legal actions and claims. A liability is recognized as an unfunded liability for any legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "reasonably possible" are disclosed in the notes to the financial statements. Liabilities that are considered "remote" are not recognized in the financial statements or disclosed in the notes to the financial statements.

K. Annual, Sick and Other Leave

Annual and compensatory leave is accrued, as an unfunded liability, as it is earned. Each year the accrued unfunded annual leave liability account is adjusted to reflect the current unfunded leave earned and the current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, CSOSA pays interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services, whichever is later.

M. Retirement Plans

CSOSA participates in the retirement plans offered by the Office of Personnel Management (OPM) and does not maintain any private retirement plans. CSOSA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered by the CSRS, CSOSA contributes 7.0 percent of the employees' gross pay for normal retirement and 7.5 percent for law enforcement retirement. For employees covered by the FERS, CSOSA contributes 11.2 percent of employees' gross pay for normal retirement and 23.8 percent for law enforcement retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For employees covered by the FERS, a TSP account is automatically established and CSOSA is required to contribute 1 percent of gross pay to this plan and match employee contributions up to 4 percent. No matching contributions are made to the TSPs established by CSRS employees. CSOSA does not report

Note 1: Summary of Significant Accounting Policies (con't):

CSRS or FERS assets, accumulated plan benefits or unfunded liabilities, if any, which may be applicable to its employees, such reporting is the responsibility of OPM. The Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government", requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service, see footnote on Imputed Financing Sources for additional details.

N. Federal Employees Compensation Benefits

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

Actuarial Liability: The U.S. Department of Labor (DOL) calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical and other approved costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments are discounted to present value. The resulting Federal Government liability is then distributed by agency. The portion of this liability (if any) would include the estimated future cost of death benefits, workers' compensation, medical and miscellaneous cost for approved compensation cases for CSOSA employees

The FECA actuarial liability (if any) is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed.

Accrued Liability: The accrued FECA liability (if any) is the amount owed to DOL for the benefits paid from the FECA Special Benefits Fund for which CSOSA has not yet reimbursed.

O. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

P. Restatements

As discussed in note 13, CSOSA restated the FY 2004 ending balances of the two components of Net Position, Unexpended Appropriations and Cumulative Results of Operations, to appropriately present the individual line items.

Note 2: Fund Balance with Treasury:

The Fund Balance with Treasury amount represents the unexpended cash balance of CSOSA's Treasury Symbols and consists of the following as of September 30, 2006:

Fund Balance	CSP	PSA	Total FY 2006	Total FY 2005
Appropriated Funds	\$54,588,479	\$6,492,381	\$61,080,860	\$58,200,356
Cancellation of Expired Funds	-0-	-0-	-0-	(4,538,275)
Total	\$54,588,479	\$6,492,381	\$61,080,860	\$53,662,081

Status of the Fund Balance with Treasury consists of the following:

Status of Fund Balance	CSP	PSA	Total FY 2006	Total FY 2005
Unobligated Balance				
Available	\$268,367	\$196,156	\$464,523	\$6,728,018
Unavailable	17,558,052	1,331,721	18,889,773	7,867,721
Obligated Balance not yet Disbursed	36,762,060	4,964,504	41,726,564	39,066,342
Total	\$54,588,479	\$6,492,381	\$61,080,860	\$53,662,081

Note 3: Accounts Receivable:

CSOSA's Public Accounts Receivables consists of services provided in conjunction with a reimbursable grant from the State of Maryland.

Receivables	CSP	PSA	Total FY 2006	Total FY 2005
Intragovernmental Receivables	\$-0-	\$-0-	\$-0-	\$39,004
Total Receivables	\$-0-	\$-0-	\$-0-	\$39,004

Receivables	CSP	PSA	Total FY 2006	Total FY 2005
Public Receivables	\$1,706,889	\$-0-	\$1,706,889	\$900,272
Total Receivables	\$1,706,889	\$-0-	\$1,706,889	\$900,272

Note 4: General Property, Plant and Equipment, Net:

Items are generally depreciated using the straight-line method. CSOSA has established the following capitalization thresholds: Equipment for \$25,000 or greater, with a useful life of five years; Leasehold Improvements for \$100,000 or greater, amortized over the remaining term of the current lease agreement; and \$500,000 for Software Development with a useful life of two or more years. Equipment consists of laboratory equipment used for the purpose of drug testing related to CSOSA's mission to supervise offenders. Equipment also includes general office equipment used to support CSOSA administratively. Leasehold improvements represent modification made to leased assets for CSOSA's specific needs. The Supervision Management

Note 4: General Property, Plant and Equipment, Net (con't):

Automated Record Tracking system (SMART) is CSOSA CSP's Internal Use Software. SMART was developed in-house and is consistently being updated and enhanced. These enhancements enable CSOSA to better track the individuals under CSOSA's jurisdiction. SMART is consistently being reviewed and updated. The Pretrial Real Time Information System Manager (PRISM) is PSA's Internal-Use Software. PRISM provides electronic information on bench warrants that have been issued for defendants who failed to appear for Court. Through the Data Warehouse, PSA is able to extract aggregate performance information from PRISM on rearrest and failure to appear (FTA). PRISM is consistently being reviewed and updated. Property, Plant and Equipment balances as of September 30, 2005 are as follows:

CSP	Purchase Cost	Accumulated Depreciation	Net Book Value FY 2006	Net Book Value FY 2005
Equipment	\$1,509,774	\$1,133,384	\$376,390	\$479,937
Leasehold Improvements	16,365,306	6,208,929	10,156,377	12,666,280
Internal Use Software	10,158,207	7,838,858	2,319,349	5,778,698
Total CSP	\$28,033,287	\$15,181,171	\$12,852,116	\$18,924,915

PSA	Purchase Cost	Accumulated Depreciation	Net Book Value FY 2006	Net Book Value FY 2005
Equipment	\$519,998	\$420,006	\$99,992	\$215,629
Leasehold Improvements	126,122	126,122	-0-	-0-
Internal Use Software	3,021,758	2,993,180	28,578	553,591
Total PSA	\$3,667,878	\$3,539,308	\$128,570	\$769,220
Total CSOSA	\$31,701,165	\$18,720,479	\$12,980,686	\$19,694,135

Note 5: Liabilities Covered / Not Covered by Budgetary Resources:

Liabilities represent the monies or other resources that are likely to be paid by CSOSA as the result of a transaction or event that has already occurred. Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources. Liabilities not covered by budgetary resources consist of Accrued Unfunded Annual Leave earned but not used as of September 30. The accrued unfunded annual leave liability is adjusted as leave is earned and used throughout the year. The expenditure for these accruals will be funded from future Congressional actions as the expenses are incurred. The annual net change of the Accrued Unfunded Annual Leave is reflected in the Statement of Financing.

Note 5: Liabilities Covered / Not Covered by Budgetary Resources (con't):

Liabilities Not Covered by Budgetary Resources	CSP	PSA	Total FY 2006	Total FY 2005
Accrued Unfunded Annual Leave	\$3,800,543	\$1,346,824	\$5,147,367	\$4,881,061
Actuarial FECA Liability	342,123	55,695	397,818	467,092
	<u>\$4,142,666</u>	<u>\$1,402,519</u>	<u>\$5,545,185</u>	<u>\$5,348,153</u>
Liabilities Covered by Budgetary Resources	CSP	PSA	Total FY 2006	Total FY 2005
Accounts Payable	\$130,314	\$171,746	\$302,060	\$1,760,203
Advances from Other Federal Agencies	823,266	-0-	823,266	632,564
Total Intragovernmental Liabilities	<u>\$953,580</u>	<u>\$171,746</u>	<u>\$1,125,326</u>	<u>\$2,392,767</u>
Accounts Payable	5,640,553	1,775,764	7,416,317	10,870,913
Accrued Payroll and Benefits	2,697,059	1,133,871	3,830,930	3,580,173
Total Liabilities Covered by Budgetary Res.	<u>\$9,291,192</u>	<u>\$3,081,381</u>	<u>\$12,372,573</u>	<u>\$16,843,853</u>
Total Liabilities	<u>\$13,433,858</u>	<u>\$4,483,900</u>	<u>\$17,917,758</u>	<u>\$22,192,006</u>

Note 6: Exchange/Earned Revenue:

CSOSA earns exchange revenue through inter-agency agreements with other Federal and State entities for which CSOSA provides grant administration services. Revenues are recognized at the time related program or administrative expenses are incurred. CSOSA reviews and classifies their inter-agency agreements as either exchange or transfers in.

Note 7: Leases:

Operating leases have been established for multiple years. Many of the operating leases that expire over an extended period of time include an option to renew the lease for additional periods. The majority of space that CSOSA leases is based on the GSA square footage requirements and the rental charges are intended to approximate commercial rates. It is anticipated that, in most cases, CSOSA will continue to lease space.

Future Operating Lease Payments Due	Buildings
Fiscal Year 2006	11,716,150
Fiscal Year 2007	12,036,939
Fiscal Year 2008	12,366,630
Fiscal Year 2009	12,705,466
Fiscal Year 2010 and After	13,053,707
Total Future Operating Lease Payments Due	<u>\$61,878,892</u>

Note 8: Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods:

Liabilities that are not covered by budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered

Note 8: Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods (con't):

liabilities not covered by budgetary resources. These liabilities consist of the value of the accrued unfunded annual leave.

Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	CSP	PSA	Total FY 2006	Total FY 2005
Increase in Annual Leave Liability	\$262,833	\$3,473	\$266,306	\$696,138
Decrease in Exchange Revenue Receivable from the Public	806,616	-0-	806,616	651,085
Actuarial FECA Liability	(59,576)	(9,698)	(69,274)	169,604
Total	\$1,009,873	(\$6,225)	\$1,003,648	\$1,516,827

Note 9: Imputed Financing Sources:

Imputed financing recognizes actual cost of future benefits to employees, the Federal Employees Health Benefits Program (FEHB), the Federal Employees Group Life Insurance Program (FEGLI), and the Retirement Plans that are paid by other Federal entities. SFFAS No. 5, "Accounting for Liabilities of the Federal Government", requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate these costs. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees. For "regular" and "law enforcement" employees of FERS and CSRS, OPM calculated that 12.0 percent and 25.1 percent for FERS and 25.0 percent and 40.3 percent for CSRS respectively of each employee's salary would be sufficient to fund these projected pension benefit costs. The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits, which include health and life insurance that are paid by other Federal entities, must also be disclosed.

Imputed financing sources:

	CSP	PSA	Total FY 2006	Total FY 2005
FEHB	\$3,612,439	\$1,492,738	\$5,105,177	\$4,614,419
FEGLI	9,262	3,700	12,962	12,157
Pensions	2,339,547	493,899	2,833,446	2,857,496
Total	\$5,961,248	\$1,990,337	\$7,951,585	\$7,484,072

Note 10: Contingencies and Commitments:

CSOSA is a party to various administrative proceedings, legal actions and claims. As of September 30, 2006, there were six pending legal actions where adverse decisions are considered to be reasonably possible. The estimated amount of losses range from \$1 to \$209,502.

Note 11: Apportionment Categories of Obligations Incurred:

Obligations incurred as reported on the Statement of Budgetary Resources, for the period ended September 30, consisted of the following:

Fiscal Year Ended Sept. 30, 2006 Obligations Apportioned Under:	Direct Obligations	Reimbursable Obligations	Total FY 2006	Total FY 2005
<u>CSP</u>				
Category A	\$128,811,678	\$1,533,508	\$130,345,186	\$121,268,463
<u>PSA</u>				
Category A	41,615,492	199	41,615,691	39,620,515
Total	\$170,427,170	\$1,533,707	\$171,960,877	\$160,888,978

OMB usually uses one of three categories to distribute budgetary resources, they are:

Category A: apportionments distribute budgetary resources by fiscal quarters;

Category B: apportionments typically distribute budgetary resources activities, projects, objects or a combination of these categories;

Category C: apportionments may be used in multi-year and no-year.

Note 12: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government:

The following is provided as a reconciliation of the FY 2006 Statement of Budgetary Resources (SBR) and the Budget of the United States Government:

Fiscal Year 2006	Budget Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources:	\$188	\$172	\$162
Differences:			
Enacted Reductions	-2		
Recoveries of Prior Year Unpaid Obligations	-4	-4	
Permanently Not Available	-1		
Other	-8	1	
Budget of the U.S. Government	\$173	\$169	\$162

Other differences represent financial statement adjustments, uncorrected MAX adjustments, timing differences and other immaterial differences between amounts reported in the CSOSA SBR and the Budget of the United States Government.

Note 12: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government (con't):

The following is provided as a reconciliation of the FY 2005 Statement of Budgetary Resources (SBR) and the Budget of the United States Government:

Fiscal Year 2005	Budget Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources:	\$172	\$161	\$149
Differences:			
Plus PDS	30	30	26
Enacted Reductions	-6		
Recoveries of Prior Year Unpaid Obligations	-4	-4	
Other		1	-1
Budget of the U.S. Government	\$192	\$188	\$174

In 2005 the Public Defenders Service's (PDS) appropriation amount was included in CSOSA's section of the Budget of the U.S. Government. However, the PDS appropriation amount was not included in the Statement of Budgetary Resources because PDS is a separate and independent reporting entity.

Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the CSOSA SBR and the Budget of the United States Government.

Note 13: Restatements:

CSOSA corrected its fiscal year 2005 opening balances of the two components of Net Position--Unexpended Appropriations and Cumulative Results of Operations--to appropriately present the individual line items. Two additional adjustments were made to appropriately state the components of Net Position as of October 1, 2004. These adjustments were related to Federal Employees Compensation Act (FECA) Actuarial Liability and High Intensity Drug Trafficking Areas (HIDTA) Grant receivable amounts. These errors were attributable to a material weakness over financial reporting with respect to performing account reconciliations. Management developed a corrective action plan to address the related finding. These adjustments were as follows:

(A) The amount of \$3,050,037 was reclassified between the two components, to correct a misclassification of unfunded leave, but did not change the total Net Position in the Statement of Changes in Net Position at the beginning of FY 2005.

(B) Costs related to High Intensity Drug Trafficking Areas (HIDTA) Grants were incurred and paid by CSOSA in FY 2004 but not billed to HIDTA until FY 2005. The restatement adjustment of \$477,305 increases the Accounts Receivable with the Public line item for the FY 2004 costs incurred which were not billed to HIDTA until FY 2005.

Note 13: Restatements (con't):

(C) The FECA Actuarial Liability of \$297,488 was not recorded in FY 2004. This restatement adjustment of \$297,488 records the liability and decreases Cumulative Results of Operations.

Item	Description	Net Position	
		Unexpended Appropriations	Cumulative Results of Operations
A	The components of net position were reclassified to properly present the opening balances of cumulative results of operations (CRO) and unexpended appropriations, respectively.	\$(3,050,037)	\$3,050,037
B	UA was increased to correct an understatement of grant receivables in the prior year.	477,305	
C	CRO was decreased to correct an understatement of FECA actuarial liability in the prior year.		(297,488)
	Restatement of Net Position	\$(2,572,732)	\$2,752,549